

Norton Opposes Ballots 1st, Education Later to Convert Credit Union to Bank - August 24, 2006

Norton at Press Conference Opposes Ballots

First - Education Later to Convert a

Credit Union to a Bank

August 24, 2006

Washington, DC - Congresswoman Eleanor Holmes Norton (D-DC) spoke at a press conference in front of the Ronald Reagan Building today to support her constituents and other members of USAID, the Peace Corps, and the Small Business Administration, who are member/owners of the Lafayette Federal Credit Union facing conversion to a bank. Norton called for the distribution of ballots for the vote after, not before, education and feedback from members to avoid "the functional equivalent of passing out ballots now for the upcoming November elections."

In an August 21, 2006 letter released today, Norton and Congressman Chris Van Hollen (D-MD) asked the Lafayette Federal Credit Union board to follow proposed regulations that would require the education and disclosure they requested. They asked for a written response that never came. Instead, CEO Michael Hearne issued a release, citing their authority to proceed.

The full text of the Norton statement and joint letter with Congressman Van Hollen follow.

Perhaps the best way to understand why we are here today is to focus on a close, commonly understood analogy. We are asking that ballots be distributed after the issues have been aired, not before. Instead, the Lafayette Federal Credit Union Board wants to ask their member/owners to vote first and to discuss the matter openly after the decision has been made. That's the functional equivalent of passing out ballots now for the upcoming November elections.

I am happy that in our marvelous diverse and productive system, both banks and credit unions are accommodated and welcomed by the American people. In the District, business is booming, residents are remaining and moving here, and banks and credit unions are both coming to town in greater numbers. I especially appreciate being regularly summoned these days to help cut the ribbon on a new bank or bank branch here, downtown and in neighborhoods alike, and just yesterday, I helped cut the ribbon for a new Treasury Department credit union branch.

I am here, as they say in the streets, not because I have a "dime in this dollar," or money in this credit union, although in the spirit of the same full disclosure I am asking from the Lafayette Federal Credit Union, I am a member of the Wright Patman Congressional Federal Credit Union, like most members of the House and Senate.

I, therefore, approach this issue as a neutral on the final bank or credit union outcome. I am never neutral, however, on process when transparency and full disclosure involving money is concerned, especially the money and ownership of D.C. residents and of federal employees. To their credit, our constituents have not tried to involve Rep. Chris Van Hollen and me in the decisions, but they have asked our assistance concerning process. We, therefore, examined their concerns and past experience regarding conversion and attempted conversions where full disclosure had been an issue, and discovered very disturbing examples, including personal enrichment by insider directors and staff.

Apparently, this experience has come to the attention of the agency charged with regulation, the National Credit Union Administration (NCUA). The NCUA is poised to issue regulations (12 U.S.C. 1785 (b) (2); 12 CFR Part 708 (a)) that will allay many of the concerns raised by our constituents. Particularly considering that the comment period closes next week about the time that ballots may be sent out by Lafayette, we based our request largely on this regulatory change. Particularly considering past abuses elsewhere, Rep. Van Hollen and I in a letter of August 21, 2006, which we are releasing today, we asked that the spirit of these important changes be recognized and incorporated by Lafayette. We have no way of knowing whether the timing of the proposed Lafayette conversion is coincidental or, as some fear, an attempt to affect the conversion before the regulations become final. However, we could see no harm to affected class of member/owners of a delay. On the other hand sending ballots immediately, while permitted (although contrary to the new proposed regulations), would foreclose information, education, discussion and feedback from many members that could inform the board and help them meet their fiduciary obligations to all member/owners.

The difference between banks and credit unions rests largely on how ownership is defined and acquired. Credit unions are cooperatives, and therefore, the distribution of earnings is often through benefits to members, while corporations, including banks, reward shareholders with cash or the equivalent from profits. Both arrangements are of great benefit to all who can participate and many of us are glad to be both shareholders and member/owners. Obviously, however, conversion from one form to the other involves a fundamental transformation. Returning to my opening analogy, many credit union members may know who they are going to vote for in November. It is unlikely that just as many member/owners would already know enough upon receiving a ballot without more to make an informed decision to convert their credit union to a bank - or not.

Washington is not a good city to rush a conversion of a credit union to a bank at this time. First, federal workers here, especially USAID, Peace Corps, Small Business Administration and other federal employees are among the best educated and most sophisticated Americans. They should never been underestimated. Second, this is the nation's capital where the Congress of the United States sits. Already 123 members of the House, including me, are sponsors of H.R. 2317, the bipartisan Credit Union Regulatory Improvements Act, which would change the number of credit union members necessary for a bank conversion to 20% of membership, the previous standard, instead of a majority of members voting under present law and regulations. The Lafayette case here, where Congress sits, could result in conversion without fair and informed notice with less than 1% of the member/owners voting. H.R. 2317 can only be spurred by such an attempt. This is the wrong place and the wrong time to attempt a rushed conversion short of total transparency and maximum fairness.

August 21, 2006

Michael Hearne

Chief Executive Officer

Lafayette Federal Credit Union

3535 University Blvd. West

Kensington, MD 20895

Dear Sir:

This letter is seeks your cooperation in allowing federal government workers and other member owners of Lafayette

Federal Credit Union additional time and the opportunity to better understand Lafayette FCU's proposed conversion from a federal credit union to a bank charter. The comment period on a proposed National Credit Union Administration regulation (12 U.S.C. 1785 (b)(2); 12 CFR Part 708a) on conversion of credit unions to banks ends on August 28, 2006, and many of our concerns listed below are addressed in this pending regulatory proposal. Our request is in keeping with the proposed regulation, and we believe that Lafayette FCU can comply with the spirit of these proposed regulations, and that the process will be, in fact, greatly enhanced by taking members' views into greater account.

We strongly believe that the leadership of the Lafayette FCU should:

- 1) Give members advanced notice of the potential conversion of Lafayette Federal Credit Union to a bank.

The member/owners of the credit union deserve proper notice from the board of directors and leadership in order to protect their rights to due process BEFORE a ballot on such a fundamental change in ownership status is delivered to them as member/owners.

- 2) Allow for a period of at least 60 days for feedback from members on Lafayette FCU's plan to convert to a bank

This would allow the leadership to better determine the member's views and/or support or opposition to such a charter change. We understand that no formal communications have been made to the members and no opportunities for member/owners to discuss the plans have been provided.

This lack of opportunity to understand the proposal denies members an opportunity to communicate with the credit union's leadership and with other members. This process should include the holding of multiple meetings open to the membership and the media, in convenient places near the workplace of members such as at USAID, Small Business Administration, Peace Corps, the District of Columbia community, and the Takoma Park - Silver Spring Food Cooperative. We believe the holding of such meetings is a fair way for the members to better understand what is at stake.

Appropriate opportunities for members opposed to a credit union to bank conversion should be given at these meetings.

- 3) Allow members opposed to the proposed credit union to bank conversion to have access to the books and records of the credit union as well as to disseminate information to members from members opposed to a credit union to bank conversion.

Assuming that the Lafayette FCU's leadership still feels it is appropriate to continue with the proposed credit union to bank conversion after receiving feedback from members, the ability to examine is an important due process right of member/owners. Additionally, member/owners should also be allowed to mail information to the membership to express their opposition view to the conversion taking into account all safety and soundness concerns and privacy rights. The credit union leadership could easily accomplish this due process request. We understand that the credit union leadership has a significant budget for the conversion, and we feel some portion of the budget should be used to adequately educate member/owners about the proposed transaction.

- 4) Deliver ballots to members only after the 60 days member owner feedback period.

Member/owners would only receive ballots after a period in which they are fully informed about the proposed credit union to bank conversion and have been allowed to communicate with the Lafayette FCU leadership and with each other about their opinions on the potential conversion. By including a ballot with only the 30 day notice, members will have time to understand the potential ramifications of the conversion.

Our significant concern

Based on the experience of other credit union to bank conversions, we are very concerned about the potential for unjust insider enrichment in the conversion of Lafayette FCU to a bank, and of these conversions in general, as well. The leadership of the credit union has significant advantages in understanding the value to individuals of the purchase of shares of converted bank, and will receive all of the benefits of legal counsel and financing of the purchase of such shares not enjoyed by credit union members. In fact it is estimated that previous conversions have netted volunteer directors and officials an average of \$742,000, and management an average of \$1.2 million, and more than \$2 million in additional compensation and stock for the CEO of past converted credit unions. The same research shows credit union members do not benefit but may be burdened with higher fees in the future when the not-for-profit institution becomes a for-profit institution.

We strongly believe that member/owners deserve transparency and need full disclosure and an accounting of ALL POSSIBLE FINANCIAL BENEFITS made available to insiders. Credit union members also need to understand the very real impact on their future finances, should they choose to support this transaction.

As a leader of an important financial services institution in our community, I know you are as concerned as I am about our constituents and the government workers who make up a large portion of your membership base. They deserve transparency and a say in the future of the institution they own. I appreciate your willingness to provide ample time for comment and discussion so these constituents can make an informed decision about this important ballot vote.

Thank you for your attention to this important matter. We understand that the approval of ballots from the National Credit Union Administration is imminent, and we therefore ask that you respond no later than August 23, 2006.

Sincerely,

Congresswoman Eleanor Holmes Norton

Congressman Chris Van Hollen

cc: Arnold Rosenthal, Chairman
Norman Cohen, Chairman Emeritus
Barton Veret, Vice Chairman
LeAnn Oliver, Treasurer
Richard Ginsburg, Secretary
John Farmakides
Thomas Harmon
Kenneth Lanza

Drew Luten